

## Message Text

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C O N F I D E N T I A L STATE 231657 TOSEC 270351

LIMDIS

FOL TEL SENT ACTION SECSTATE INFO BONN EC BRUSSELS OECD PARIS  
NATO FROM LISBON DTD 17 SEPT 1976 QTE

C O N F I D E N T I A L LISBON 6387

LIMDIS

DEPT PLEASE PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: XGDS-4

TAGS: PFOR, ECON, PO

SUBJECT: COMMENTS BY PRIME MINISTER SOARES ON GOP'S  
ECONOMIC PROGRAM

REF: LISBON 6329 (DTG 151554Z SEP 76)

SUMMARY: SOARES TOLD VISITING U.S. TREASURY EXPERTS  
HIS GOVERNMENT WAS DETERMINED TO REVERSE THE COUNTRY'S  
ECONOMIC DECLINE. NO ONE SHOULD DOUBT THE GOVERNMENT'S  
POLITICAL WILL. ECONOMIC EFFICIENCY HAD TO BE IMPROVED.  
THE GOVERNMENT WOULD NO LONGER SUBSIDIZE NONVIABLE  
ENTERPRISES. THE LARGEST ECONOMIC DECISION, E.G.  
DEVALUATION, HAD NOT YET BEEN TAKEN. DEVALUATION,  
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WHEN IT COMES, WILL HAVE TO BE ACCOMPANIED BY A SERIES

OF OTHER MEASURES TO AVOID DISSIPATING ITS BENEFITS.  
THE PRINCIPAL POLITICAL HURDLES FOR THE GOVERNMENT'S  
PROGRAM WERE THE LOCAL ELECTIONS AND THE QUESTION OF  
TRADE UNION UNITY. BY THE END OF THE YEAR THESE  
OBSTACLES WOULD BE OVERCOME AND THE GOVERNMENT WOULD  
BE ABLE TO TAKE EVEN STRONGER ECONOMIC MEASURES.  
END SUMMARY

1. I ACCOMPANIED VISITING TREASURY OFFICIALS SYVRUD AND  
WILLIS DURING A CALL TODAY, SEPTEMBER 17, ON PRIME  
MINISTER MARIO SOARES. FINANCE MINISTER MEDINA  
CARREIRA AND ECONOMIC COUNSELOR FERRER WERE ALSO  
PRESENT.

2. SOARES SAID THE GOVERNMENT WAS MAKING A GREAT  
EFFORT-- AND THERE COULD BE NO DOUBT ABOUT THIS --  
TO MODIFY THE COUNTRY'S PRESENT ECONOMIC ORIENTATION.  
AN END HAD TO BE PUT TO THE ABNORMAL SITUATION WHICH  
PRESENTLY EXISTED. THE COUNTRY'S PRODUCTIVE PLANT  
HAD TO BE PUT ON A SOLVENT, EFFICIENT BASIS. THE  
GOVERNMENT INTENDED TO TERMINATE SUBSIDIES TO NON-  
VIABLE ENTERPRISES. IT DID NOT INTEND TO RESPOND  
TO PCP EFFORTS TO PROVOKE MORE STATE INTERVENTION.  
SUCH INTERVENTION WOULD BE NO LONGER TAKE PLACE IN  
COMPANIES WHERE THE POSSIBILITY OF NEGOTIATIONS BE-  
TWEEN LABOR AND MANAGEMENT HAD NOT BEEN EXHAUSTED.

3. SOARES NOTED THE SYMBOLIC IMPORTANCE OF TWO  
DECISIONS YESTERDAY BY THE COUNCIL OF MINISTERS. ONE  
WAS TO ALLOW A COMPANY TO GO INTO BANKRUPTCY. THE  
SECOND WAS TO ESTABLISH A BEET SUGAR REFINERY WITH  
ONE-THIRD STATE OWNERSHIP, ONE-THIRD BY OTHER RELATED  
COMPANIES, AND ONE-THIRD PUBLIC SUBSCRIPTION. BOTH  
DECISIONS INDICATED THE GOVERNMENT'S FUTURE DIREC-  
TION; LET INEFFICIENT ENTERPRISES DIE AND ENCOURAGE  
COOPERATION BETWEEN THE GOVERNMENT AND THE PRIVATE  
SECTOR.

4. SOARES SAID THAT HE COULD ALREADY SENSE A CHANGE  
IN THE COUNTRY'S CLIMATE. TRUE, HIS SPEECH WAS  
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TOUGH ON WORKERS AND THE PCP HAD ATTACKED IT. BUT  
EVEN THE PCP REALIZES THAT THE BALANCE OF POLITICAL  
FORCES HAS SHIFTED. YESTERDAY, FOR EXAMPLE, HE HAD  
MET FOR TWO AND A HALF HOURS WITH REPRESENTATIVES OF  
THE AGRICULTURAL WORKERS UNION (REFTEL). HE HAD  
EXPECTED THE GROUP TO BE HOSTILE, BUT IT WASNOT.

THE RURAL UNION REALIZES THAT THE GOVERNMENT IS NOW

IN A POSITION TO CUT OFF RURAL CREDIT.

5. OBVIOUSLY, SOARES SAID, THE LARGEST ECONOMIC DECISIONS HAD NOT YET BEEN MADE, SPECIFICALLY DEVALUATION. A RESTRICTED GROUP, INCLUDING THE FINANCE MINISTER AND THE GOVERNOR OF THE CENTRAL BANK, IS STUDYING THE ISSUE. DEVALUATION, WHEN IT COMES, WILL HAVE TO BE ACCOMPANIED BY A SERIES OF CAREFUL MEASURES TO BE CERTAIN ITS BENEFITS WOULD NOT BE LOST.

6. SOARES SAID THE ECONOMIC PROGRAM HAS TWO DIMENSIONS, THE ECONOMIC AND THE POLITICAL. ON THE POLITICAL SIDE THERE WERE TWO SIGNIFICANT OBSTACLES AHEAD: LOCAL ELECTIONS AND THE FORTHCOMING TRADE UNION CONGRESS. IT WAS PROBABLE THAT THERE WOULD BE A SPLIT IN THE UNION MOVEMENT, AND THE SOCIALISTS WERE MANEUVERING TO MAKE INTERSINDICAL RESPONSIBLE FOR THE RUPTURE. IN CONSIDERING DEVALUATION IT WAS NECESSARY TO PREDICT ITS EFFECT ON THESE EVENTS. BUT BY THE END OF THE YEAR THE MAJOR POLITICAL PROBLEMS WOULD BE OVER THE GOVERNMENT WOULD BE ABLE TO TAKE EVEN STRONGER AND MORE EFFECTIVE ECONOMIC MEASURES. THESE WOULD BE FORESHADOWED IN ITS DEVELOPMENT PLAN AND ITS BUDGET FOR 1977 WHICH MUST BE SUBMITTED TO THE ASSEMBLY BY NOVEMBER 15.

7. NO ONE SHOULD DOUBT THE POLITICAL WILL OF THE GOVERNMENT TO RETAKE THE SITUATION IN HAND, SOARES SAID. "WE KNOW WE ARE ON A DOWNWARD PLANE AND HAVE TO REVERSE OUR COURSE. WE DON'T WANT ANY MORE LOANS TO SUBSIDIZE CONSUMPTION. WE HAVE A PLAN TO GET OUT OF THE SITUATION IN WHICH WE PRESENTLY FIND OURSELVES

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AND INTEND TO IMPLEMENT IT."

8. SOARES UNDERScoreD THE GOVERNMENT'S POLICY OF STRENGTHENING ITS RELATIONS WITH EUROPE AND MENTIONED NEGOTIATIONS TO ENTER INTO THE COMMON MARKET. HE NOTED THAT EUROPE'S ECONOMIC CONCERNS PARALLELED THOSE OF THE USG. HE EMPHASIZED THAT FAVORABLE EVOLUTION IN PORTUGAL WAS IMPORTANT AS AN EXAMPLE, NOT ONLY TO SPAIN BUT TO THE REST OF EUROPE. HE RECALLED THE SERIOUS CONSEQUENCES THAT COULD HAVE OCCURRED HAD EVENTS NOT BEGUN TO TURN AROUND IN PORTUGAL. HE NOTED IN PASSING THAT THIS REVERSAL HAD BENEFITS IN OTHER AREAS. FOR EXAMPLE, THE GOP WAS MOVING AHEAD IN ESTABLISHING RELATIONS WITH ANGOLA, AND HE EXPECTED THAT BY THE END OF THE MONTH

THEY WOULD BE IN A POSITION TO "BUILD A BRIDGE" THAT WOULD HELP THE WEST PREVENT ANGOLA FROM GOING INTO THE HANDS OF THE SOVIETS.

9. COMMENT: SOARES' COMMENTS MUST BE READ IN CONTEXT OF SERIES OF MEETINGS BETWEEN TREASURY OFFICIALS AND GOP REPS (SEPTTEL). HE CONCENTRATED LESS ON TECHNICAL QUESTIONS THAN ON CONVEYING HIS OWN PERSONAL DETERMINATION TO MOVE AHEAD. THE EMBASSY BELIEVES HE IS CORRECT IN SENSING A CHANGE IN THE CLIMATE IN THE WEEK FOLLOWING SOARES' SPEECH. SYVRUD AND WILLIS WILL MAKE THEIR OWN REPORT, BUT THE EMBASSY'S FEELING IS THAT THE GOVERNMENT IS VERY SERIOUS; IT RECOGNIZES CLEARLY THERE IS NO ALTERNATIVE TO STRONG MEASURES. AT SAME TIME IT MUST WEIGH THE POLITICAL CONSEQUENCES OF ITS ACTS, PARTICULARLY IN THE LABOR SECTOR. IF IT COMPLETELY FORFEITS LABOR TO THE COMMUNISTS, PORTUGUESE DEMOCRACY IS IN SERIOUS JEOPARDY. WITHOUT SOME LABOR SUPPORT, ECONOMIC RECOVERY CAN ONLY BE IMPOSED BY MILITARY FORCE. IF THAT HAPPENS, THE STAGE WILL BE SET FOR THE KIND OF POLARIZATION AND INSTABILITY WHICH WOULD GIVE A SHOT OF ADRENALINE TO A PRESENTLY DISPIRITED AND DEFENSIVE PORTUGUESE COMMUNIST PARTY. CARLUCCI UNQTE ROBINSON

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